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Latin American Trends

STAFF NOTES

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LATIN AMERICAN TRENDS

This publication is prepared for regional specialists in the Washington community by the Western Hemisphere Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Argentina: New Economic Program

The junta has begun implementing an economic policy that constitutes a reversal of most Peronist economic thinking. The plan is designed to strengthen the private sector--particularly agriculture--while disciplining labor, long favored by the Peronists. It also aims at fiscal and monetary reforms.

Among the measures already begun or about to be undertaken are the following:

--cutting the number of government workers, which had grown 24% in the last three years;

--lifting most price controls while strictly limiting wage increase,

--planning to reduce state ownership of production facilities over the long term and to encourage foreign investment.

Farm Policy

The new government has correctly singled out agriculture as the chief hope for producing the foreign exchange needed to meet the country's huge financial obligations and to underwrite long-term growth. To stimulate output, the regime has sharply raised farm prices and has eliminated the marketing monopoly of the state grain and meat board, which had bought from farmers at a fraction of world prices. These low domestic procurement prices, while benefiting urban workers, led to widespread black-marketing and to a drop in agricultural output and investment.

As further encouragement for the farm sector, the government intends to lower export taxes gradually and to give a favorable exchange rate for products moving through

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official export channels. To spur output of wheat, the most promising export, the government has set up an interagency committee to provide special credits and other direct support to wheat farmers.

Labor Policy

The regime has not yet announced an overall labor policy. Some observers speculate that this omission is deliberately designed to prevent coalescence of labor opposition. Various labor leaders are jockeying for the advantage of becoming labor's spokesman vis-a-vis the government.

In handling labor problems on a day-to-day basis, the government has stressed labor discipline and has curtailed the scope of union activities. Government administrators have been assigned to most major unions. The regime called in troops last month to halt an incipient auto workers' strike and has jailed some labor leaders. It does not permit wage negotiations with employers. The junta has granted a token wage increase and will consider further hikes as productivity rises.

Recent revisions in the Peronist labor contract law increased employer rights and curtailed labor rights. Reduction of generous Peronist maternity benefits presumably will make employers less reluctant to hire women.

Fiscal Reform

With a ballooning budget deficit approaching 15 percent of GDP, the new regime plans to slash the number of government workers--up 340,000 since 1972, to 1.7 million --by half a million. It has already fired 5,000. Most personnel cuts will be in administration, primarily in provincial and municipal governments. The junta will transfer some workers to the private sector by denationalizing state enterprises, perhaps first in the food-processing industries.

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The government has extensively revised the tax system, pending a complete overhaul. Tax receipts were covering only 20 percent of expenditures. An important feature of the ad hoc package is tax indexing as an incentive to pay promptly. With last year's 335-percent inflation rate, delayed payment of taxes was the cheapest source of credit.

Prospects

The government faces great difficulties in restoring economic equilibrium. It is impossible to predict how soon output and claims on output can be brought into balance. Inflation has continued almost unabated during the junta's first six weeks. Sharp drops in absenteeism, however, should boost production, and court action against companies that raise prices excessively should discourage speculation. Maintaining the austerity measures necessary to revitalize production requires labor support. If the regime does not get this support, it will have either to become more repressive or, like the 1966-73 military government, to capitulate to labor demands and let the economic program collapse.

The Videla government is in a stronger position than the preceding military government. The economy had deteriorated so far before the recent coup that military intervention was widely welcomed. Moreover, no charismatic leader is now on the scene to offer a populist alternative to the tough program of the military.

With favorable weather the agricultural policy will stimulate grain and meat exports. The labor unions will cooperate for the time being, for want of any option. Labor, however, will press wage demands in view of the squeeze on real wages. The government, as part of its anti-inflation strategy, will itself decide the tempo of money wage increases needed to keep real wages from dropping too far.

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Chances for rapid reduction in the budget deficit are poor. Abolition of the state marketing monopolies and lowered export taxes will reduce revenues. Payroll cuts can be made only gradually. Wholesale firings actually would raise expenditures initially, since the government promises generous severance pay and retraining aid.

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Argentina: Terrorist Threat Against Foreign Business

The terrorist threat to executives of foreign-owned business firms remains high.

In less than two months the guerrillas have sent threatening messages to ten or more US based companies. One Fiat official was killed on May 4 and the bodyguards of a local Bendix executive were recently gunned down.

Defending their actions in nationalistic terms, the terrorists seek to drive out the foreign firms, which have been warmly embraced by the new junta. In this effort, the guerrillas aim to hurt the new government economically as well as politically.

In general, the terrorists seek to present themselves as defenders of the interests of the workers. Indeed, some of the threats have come in response to dismissals or disciplinary action by the companies against workers. Some, but by no means all, the threats may emanate from union thugs not directly tied to the leftists. All firms receiving such threats are currently being urged to take them quite seriously.

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